

# Setanta EAFE Equity Strategy (USD)

Q1 2025

## Strategy Description

The **EAFE Equity Strategy** ('the Strategy') is managed by Setanta Asset Management Limited ("Setanta"). The Strategy is available to US Investors on a separate account basis.

The Strategy is an actively managed equity portfolio, with a long-term investment horizon. Our aim is to invest in EAFE (Europe, Asia and Far East) companies that are trading below their intrinsic value. Our investment process seeks to invest in companies that exhibit a combination of low financial risk, low operational risk and low valuation risk.

We believe that if we can invest in companies that possess these characteristics then we can reduce the risk of a permanent loss of capital and enhance our chances of outperforming our benchmark over the long term. The investment objective of the Strategy is to outperform the MSCI EAFE index over the long term.

## Portfolio Managers

Rowan Smith; Fergal Sarsfield, CFA, & Tony O'Sullivan, CFA



## Our Investment Principles

We do not believe markets are efficient

We invest below our estimate of intrinsic value

We invest in businesses rather than buying stocks

Preservation of our clients' capital is key

Investing is a marathon, not a sprint

We are not afraid to swim against the tide

We consider scenarios rather than making forecasts

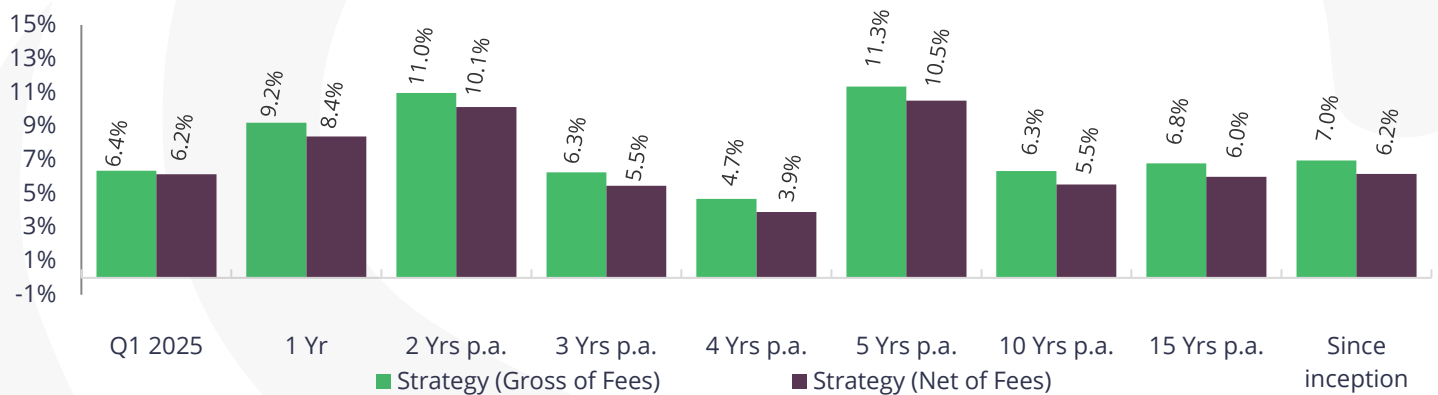
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

# Performance and Strategy data as at 31<sup>st</sup> March 2025

## Strategy Performance (USD)



## Yearly Performance (USD)

	2020	2021	2022	2023	2024
Strategy (Gross of Fees)	-0.2%	12.5%	-16.0%	18.3%	5.6%
Strategy (Net of Fees)	-0.9%	11.6%	-16.6%	17.5%	4.8%

## Portfolio Valuation Statistics

PRICE/BOOK	1.7
PRICE/EARNINGS RATIO (FY 1)	14.8
DIVIDEND YIELD %	3.0
AVERAGE MARKET CAP \$BN	90.1
NO. OF HOLDINGS	38
DEBT/EQUITY %	68.2
ACTIVE SHARE %	92.0

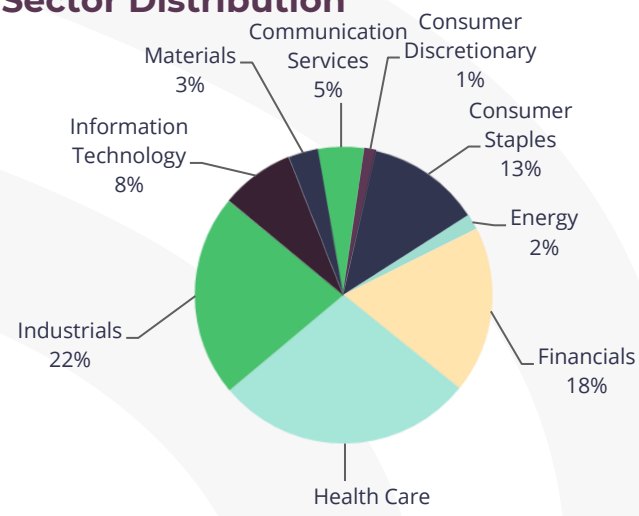
## Top 10 Holdings

COMPANY	SECTOR	WEIGHT
DCC	INDUSTRIALS	4.4%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	4.3%
THAI BEVERAGE PCL	CONSUMER STAPLES	4.3%
DEUTSCHE BOERSE	FINANCIALS	4.2%
TENCENT HLDGS	COMMUNICATION SERVICES	3.8%
BANK OF IRELAND	FINANCIALS	3.7%
SANOFI	HEALTH CARE	3.6%
RYANAIR	INDUSTRIALS	3.5%
COLOPLAST	HEALTH CARE	3.4%
ROCHE HLDGS	HEALTH CARE	3.4%

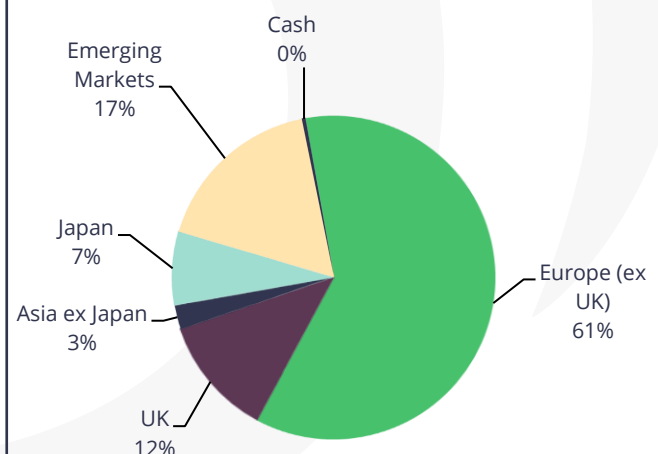
**Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash), of the lead CAD account of the EAFE Equity Strategy. **Portfolio Valuation Statistics Source:** Bloomberg, based on the lead CAD account of the EAFE Equity Strategy, shown in USD.

**Performance Source:** Setanta Asset Management Limited. The returns stated are based on the movements in the unit prices of the lead CAD portfolio of the EAFE Equity Strategy which was CLA CA Managed EAFE Portfolio SF035 [IEC11007] till 09.06.22 and LL EAFE Equity Strategy 6.84 [IEC15004] thereafter, which has been converted to USD at FX rate CAD 0.6948 to 1 USD as at 30<sup>th</sup> September 2024. The gross performance will be reduced by the impact of management fees paid, the amount of which varies. Net of Fees performance is calculated based on an AMC of 0.75%, which is based on a minimum portfolio size of USD25m. Inception date: January 2004.

## Sector Distribution



## Geographic Distribution





# Q1 2025 Commentary

EAFE region equities delivered good performance in the first quarter. This was perhaps helped by some rotation out of US equities and into European equities, which fared particularly well during the period. One catalyst for this is Germany, where we have seen the new government coalition partners announce plans for a substantial investment program to upgrade infrastructure and expand defence capabilities. The multiplier effects here mean that these initiatives could help to kickstart economic growth in the region, especially if some of these policies are adopted elsewhere.

One fly in the ointment here is the threat of US tariffs, the precise nature of which remain somewhat uncertain at the time of writing. Although we now have some clarity regarding the rates at which some of the tariffs will be levied there is a considerable amount we do not know, including:

- Will any product categories, such as lifesaving equipment, advanced semiconductors or critical minerals, be exempted?
- To what extent will the tariffs duplicate or offset; will the 25% tariff on imported vehicles be offset by the general EU tariff? How does any separate tariff on steel or aluminium affect the levy?
- Will these tariffs prove indefinite or temporary?

It is apparent that there is a great deal of confusion amongst management teams around the potential costs involved here and how these could be mitigated. This is in part because of inconsistent messaging, but also because of highly complex supply chains, as well as the impact of other factors, including transfer pricing and income tax planning. For example, one manufacturing company might be sourcing all components from a supplier located in the US, but if those components are made from material sourced in China, these will be subject to tariffs and the supplier may have a contractual right to pass the extra cost on to the client. Another example of the potential complexity involved is that while a lower declared unit cost value, achieved by some rejig of development spending or transfer pricing, could reduce the potential tariff, it could raise the US income tax charge by virtue of reducing inventory value.

Given the layers involved in modern supply chains, management teams are struggling to estimate the costs involved before they even try to design a mitigation strategy. Setting aside the potential costs involved, uncertainty is bad for business since it leads to spending delays or cancellation. Furthermore, the time the management teams are spending in evaluating and planning around tariffs is taking away from more productive work that would otherwise be done.

In short, these developments are negative and very hard to appraise, at least at this stage. If these tariffs prove to be enduring, they will result in higher prices for consumers which may in turn cause some demand destruction. Having looked through the strategy's holdings and considered the potential for mitigation, including relocating production/assembly, price increases, shared pressure in the supply chain, we don't believe there will be a substantial, lasting impact on the portfolio. There could however be some transient impacts while higher tariffs are absorbed before mitigations can take effect. The most vulnerable companies across the market are likely to be those with low profit margins and higher levels of debt, operating in very competitive industries where; for these companies there is limited ability to increase prices or absorb higher costs because there isn't the financial capacity to do so. We tend to avoid these kinds of companies anyway.



# Q1 2025 Commentary

## Key contributors to and detractors from performance

Q1 2025 Top 5 Contributors to Performance	Sector	Contribution to Return	Q1 Performance (USD)
DEUTSCHE BOERSE	FINANCIALS	1.09%	27.63%
BANK OF IRELAND GROUP	FINANCIALS	0.87%	28.47%
TENCENT HOLDINGS	COMMUNICATION SERVICES	0.76%	19.00%
NESTLE	CONSUMER STAPLES	0.62%	22.21%
ROCHE HOLDING	HEALTHCARE	0.60%	20.30%

There was fairly broad strength in European equities in the quarter, but banks and financial services were particularly strong. This may in part reflect expectations that interest rates may remain somewhat elevated, thanks to higher government spending. This would in turn boost interest income for many banks and some other financial service providers including two of the strategy's holdings, **Deutsche Boerse** and **Bank of Ireland**. Both companies reported good financial results, and this supportive macro backdrop probably also contributed to the share price strength in these stocks.

Having been out of favour for some time, Chinese stocks have enjoyed a general resurgence recently. This may have been helped by expectations that the government is now taking a more assertive role in stimulating the economy. The bigger driver may be that valuations on high quality companies like **Tencent** had simply become too depressed and have been rebounding in response to resilient earnings reports. Tencent's results have been showing good revenue growth, helped in particular by strong performance in gaming and advertising revenues. Profit margins have also been expanding thanks to cost restraint.

**Essilorluxottia** shares performed strongly in the period. The company reported another full year of strong results with growth in all key categories. New products, including the Stellest lens to arrest myopia and Rayban Meta smart glasses, have been performing especially well and group profit margins have been expanding. We continue to believe the company is well positioned strategically in a growing category. However, reflecting the expanded valuation we reduced the position during the quarter.

Q1 2025 Bottom 5 Contributors to Performance	Sector	Contribution to Return	Q1 Performance (USD)
NABTESCO CORP	INDUSTRIALS	-0.48%	-13.52%
DIAGEO	CONSUMER STAPLES	-0.47%	-16.95%
TAIWAN SEMICONDUCTOR	INFORMATION TECHNOLOGY	-0.45%	-15.62%
DEMANT	HEALTHCARE	-0.31%	-8.75%
COLOPLAST	HEALTHCARE	-0.22%	-4.09%

We reduced the position in **TSMC** early in the quarter after a very strong run up in the shares over the preceding two years. Subsequently, the shares fell on concerns that demand for its advanced chips might soften if customers' AI spending intentions weakened. It is possible that customer spending trends might decelerate but we continue to see TSMC as well positioned in the semiconductor value chain and believe the longer-term growth trajectory of the business remains intact.



# Q1 2025 Commentary

Shares in **Nabtesco**, the Japanese manufacturer of reduction gears, declined in the period after the company issued an underwhelming outlook for the current financial year. Nabtesco's products are used by manufacturers of robotic systems deployed to automate production facilities across a range of industries. We are still awaiting a rebound in demand, which has been tepid for some time. We believe this rebound will come and we don't believe this scenario is priced into the stock at current levels.

After a pandemic period boom, consumption of alcoholic beverages has been underwhelming across many markets, including Europe and the US. **Diageo's** profits have shown little growth since 2022, with peers delivering similar over that time. The absence of any sign of recovery has continued to weigh on the shares of Diageo in the early months of 2025. We believe that consumption will eventually recover, and the company's portfolio of premium spirits' brands and strong distribution capabilities position the company to take advantage of this rebound when it emerges.

Shares in **Demant**, the Denmark based hearing aid company, were weak in the period. Preliminary data suggests that demand in the US hearing aid category has softened in recent months, perhaps reflecting some general weakness in consumer sentiment. Personnel cutbacks in the Department of Veterans Affairs, an important distribution channel, are likely accentuating this weakness. Historically we haven't seen sustained contractions in this industry. Periods of declines have been followed by sharp rebounds as customers can only defer device replacement for so long. As such we are not overly worried by recent trends.

## Transactions during the period

The remaining holding in industrial distributor, **Ferguson PLC**, was divested. We continue to like the business, but the holding no longer seemed to fit the EAFE mandate since the company has now moved its head office and country of incorporation, as well as its domicile, to the US. In anticipation of this we had already reduced the position at higher levels than those prevailing today. The investment, first made in 2022, was a success, in large part because we added meaningfully to the position as the stock fell in 2022 on recession worries. This demonstrates that patient investors can take advantage of shorter-term pressures when these depress the share prices of quality companies.

We opened a position in Singapore listed, **United Overseas Bank (UOB)**. We like the market backdrop for the banks in Singapore. It's quite a consolidated market with the top three banks accounting for over three quarters of loans issued in the country, according to Fitch estimates. Nationwide loan growth has been healthy aided by steady population growth, an effective government investment strategy enabled by the stable political backdrop, and Singapore's attractive positioning as an Asian trade and investment hub. Thanks to these factors UOB has grown profits quite steadily for shareholders over the past ten years or more whilst paying out a generous and growing dividend and while investing heavily in its digital banking capabilities. The bank's capital position remains strong, and we believe the company is well positioned for further profit growth in the future.

We would like to thank our clients for their continued support.

**Rowan Smith**



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### **IMPORTANT INFORMATION**

\*Source: Stock price and index returns are from Bloomberg.

The EAFE Equity Strategy is managed by Setanta Asset Management Limited. The performance shown is the performance of the lead CAD portfolio of the EAFE Equity Strategy. This account has the longest performance track record. The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing.

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